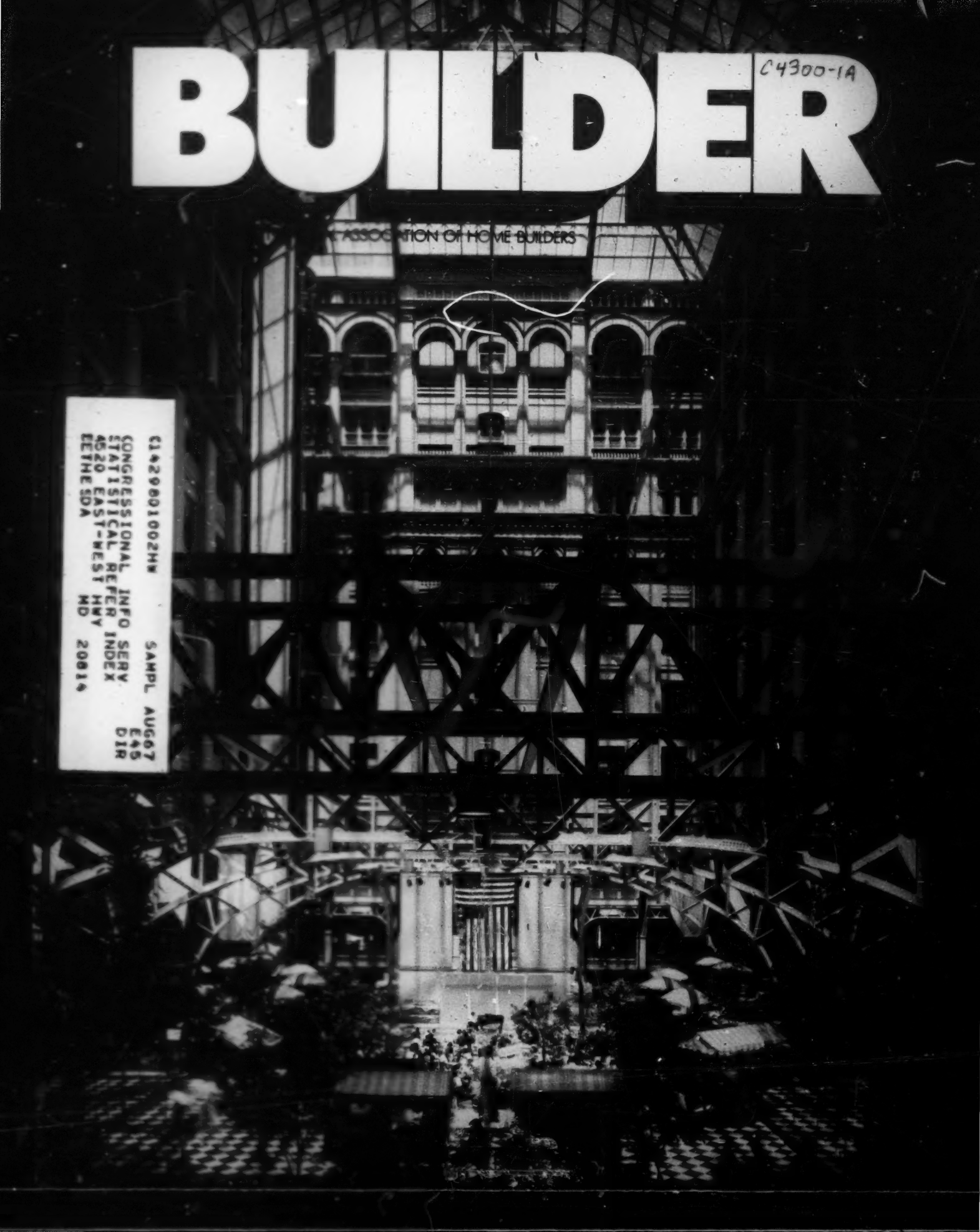


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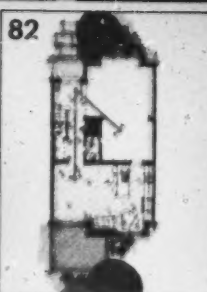
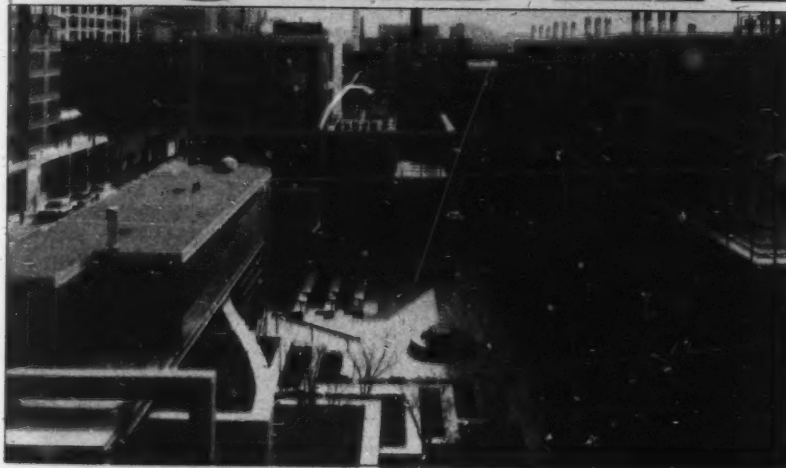
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64—MIXED USE

Once exclusively big city extravaganzas, mixed-use projects now are cropping up in smaller markets. Why? Because the payback is fast and fat, though the risks are high.

(Cover: The Old Post Office, Washington, D.C. Photo: Copyright Maxwell MacKenzie)

74—THE ROUSE TOUCH

During the last 25 years no builder has been more innovative than James Rouse. Now, at 70, he's turning to housing the urban poor.

82—DESIGN WORKSHOP: FLOOR PLANS

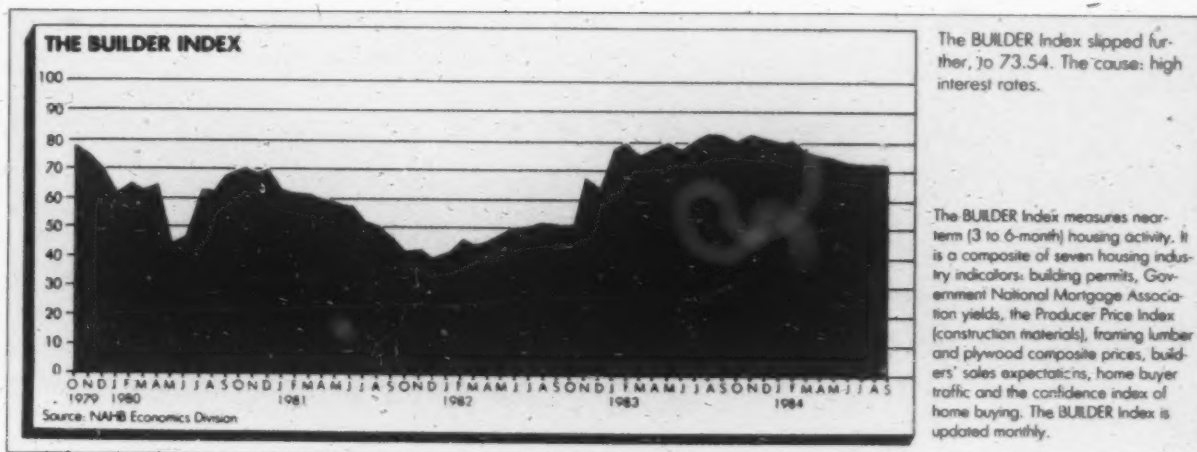
Higher density and smaller units have put the squeeze on floor plans. This story shows how to make small units feel roomy. Prepared with BUILDER's contributing design editor William Devereaux, AIA, Berkus Group Architects.

88—PROJECT OF THE MONTH

The Berco Group didn't fight with—they negotiated with—a conservative town and finally won approval for Fieldpoint, a highly successful cluster development.

OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION



Slow Growth

Michael Sumichrast

NAHB chief economist, Washington, D.C.

After an unusually strong first half the pace of economic activity has slowed decidedly, suggesting that the preoccupation with too much growth and the danger of renewed inflation has been largely misplaced. Strong growth should have been expected—and welcomed—but the doom-sayers worried instead.

I happen to enjoy prosperity and growth, and that growth never seemed out of control to me. All along I forecast low inflation beyond the initial stage of the recovery. That because world commodity prices still are depressed, oil prices stable and the dollar strong.

Clearly, the increase in mortgage rates started to affect housing in the second quarter of 1984 and continued throughout the summer.

In spite of the recent slowdown the economy has been performing remarkably well. Inflation is modest, corporate profits are nearly 50 percent higher than two years ago (\$239.3 billion, second quarter 1984, compared with \$160.9 billion, second quarter 1982); per capita disposable income has been increasing for two years and now is close to 10

percent in real terms; we also have seen strong improvement in the stock market and a record increase in employment.

Economists are trying to figure out if this recovery, characterized by high growth and low inflation, can lead us into the kind of prolonged economic expansion that prevailed in the early 1960s. Or is it just typical?

To me this recovery, with one exception, doesn't seem radically different from others. The one difference is the business climate. The Reagan administration is clearly pro-business, and it shows all over.

There is, however, one problem: the deficit. While there is no agreement on whether economic growth will continue without inflation, there is overwhelming agreement that neither can continue with deficits as high as they are.

The deficit for fiscal 1984 is estimated at \$174.3 billion, \$21 billion less than last year's record deficit but still, too high. And the administration estimates next year's deficit will be \$167 billion, despite the assumptions of a strong economy and declining interest rates.

With the rate of economic growth so high deficits and the debt-to-GNP

ratio should be declining. But they are not. During World War II the federal debt was about 130 percent of the GNP. (In 1946 the debt was \$271 billion, and the GNP was \$209.8 billion.) By 1974 the debt-to-GNP ratio had declined to 34 percent. But now it stands at 43 percent, and the Congressional Budget Office estimates that by 1989 it will be 50 percent.

As long as this continues, there is little prospect of a decline in interest rates. What may bring interest rates down is an easing of monetary policy. Already there's been some easing, as the Fed responds to slower growth and the strength of the dollar. Because of that strength the trade deficit will exceed \$100 billion this year and foreign capital is flowing into the country.

What also may bring interest rates down is a more rapid deceleration of economic growth. That may happen sometime next year; 1984 seems immune to rapid economic decline.

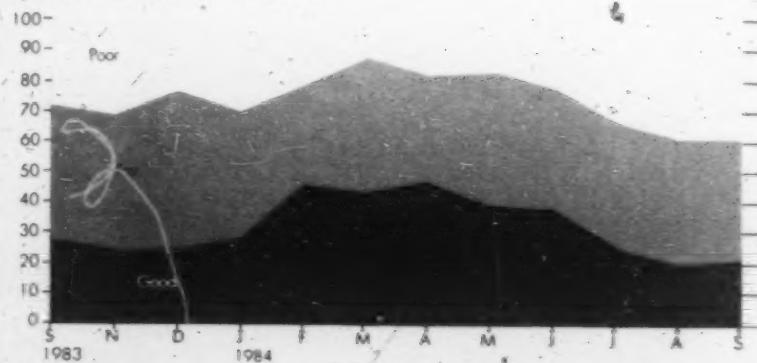
Meaningful action on the budget would be welcome. That, however, won't happen before next spring. In the meantime, the direction of interest rates will be determined by the economy. It is a good bet that economic growth will

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OUTLOOK/BUILDER POLL

CURRENT SALES

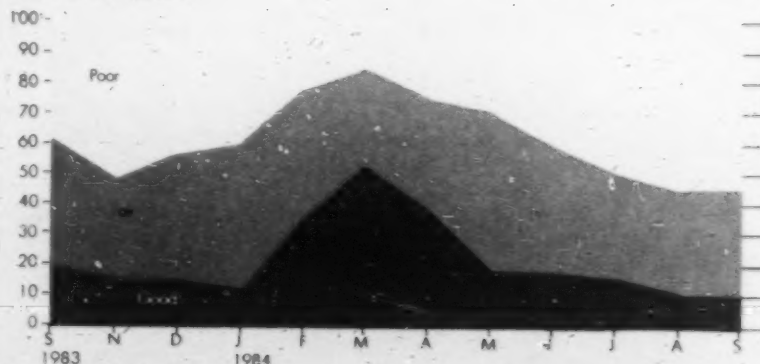
(new single-family detached homes in percent)



Source: NAHB Economics Division

CURRENT TRAFFIC

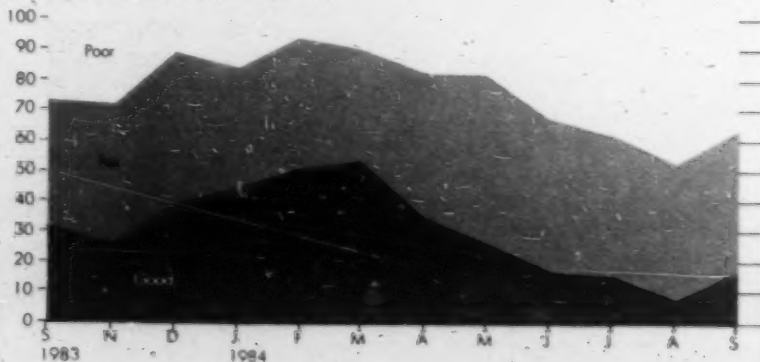
(all new homes in percent)



Source: NAHB Economics Division

6-MONTH OUTLOOK FOR SALES

(new single-family detached homes in percent)



Source: NAHB Economics Division

ENCOURAGING SIGNS

For five straight months, from March through August, the BUILDER Poll showed a steady and pronounced decline in traffic of prospective buyers, new single-family home sales and builders' expectations for new home sales. In September the decline was halted.

Builders' expectations in particular changed rather dramatically (bottom chart). The percentage who expect new homes sales to be good during the next six months increased to 18 percent, up from 8 percent a month earlier and up to the highest level since early summer.

Why the change? A North Carolina builder offered an explanation: "The market," he said, "is not as hot as it was this spring but, with interest rates dropping slightly, the outlook still has to be encouraging."

Traffic and the present pace of new detached home sales did not increase nearly as much as expectations improved (two top charts), but they did level off after months of sliding down.

It's too early, however, to call the first signs of a turnaround the start of a trend. The NAHB economics division, which conducts the poll, says the indicators must increase (or decrease) for at least three months before a trend can be established.

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

RICH GET RICHER

Median family income increased last year, but so did the poverty rate, indicating that higher income families got proportionately more of the income gain. Median family income, adjusted for inflation, rose 1.6% in 1983 to \$24,580, the Census Bureau reported recently. At the same time, the poverty rate increased to 15.2% of the population from 15.0% the year before. (A family of four was considered to be poor if its income last year was \$10,178 or less.)

OFFICE OCCUPANCY UP

The national office vacancy rate fell nearly one percentage point from 15.2% early this year to 14.4% by summer's end, according to a survey of 21 cities by Office Network, Inc., a Houston-based real estate firm. The vacancy rate drop has produced a 6% increase in office rental rates which now average \$20.61 per square foot. Dallas has the most office space under construction followed by New York, Washington, D.C., Los Angeles and Chicago.

SLOWER GROWTH

The growth of household formations should slow down next year because most of the doubling up which occurred during the recession will have undoubled by then, and fewer

people are getting divorced. That mixed news comes from Chase Econometric Associates, an economic forecasting firm, which predicts 1.6 million new households for the year ending July 1, 1985 (with most of that increase coming in the second half of 1984), and a 1.5 million increase for the following year.

PHOENIX RISES TO TOP

Phoenix led the nation in new housing units during the second quarter of this year with 15,700 starts, up 9% from the same period last year, reported the F.W. Dodge Division of McGraw-Hill Information Systems Co. The other top 10 areas for housing construction were Atlanta, 13,400 units (up 41%); Dallas, 12,000 units (down 34%); Washington, D.C., 10,900 units (up 12%); Fort Worth-Arlington, Tex., 10,000 units (up 17%); Riverside-San Bernardino, Calif., 9,800 units (up 36%); Los Angeles-Long Beach, 9,600 units (up 65%); Tampa-St. Petersburg-Clearwater, 9,400 units (up 16%); San Diego, 8,400 units (up 65%) and Houston, 8,200 units (down 55%).

SATISFIED CUSTOMERS

Americans generally are satisfied with their housing, but they would like more interior living space and more outdoor privacy. A survey of 5,000 households by the Harvard/

MIT Joint Center for Urban Studies has found that only 4% of homeowners and 12% of renters are dissatisfied with their general housing condition. But 18% of owners and 24% of renters are dissatisfied with the amount of interior space. And 14% of owners and 28% of the renters want more outdoor privacy.

VACANCIES NOT VOLATILE

The rental housing vacancy rate is likely to remain at about 5.4% throughout 1985, predicts the National Association of Realtors. Vacancies have been at about that level for the past two years.

CONGRESS BACKS OFF

Before adjourning last month, Congress backed off a bit on the new imputed interest rate rules on seller-financed real estate which were included in the 1984 tax bill. Congress delayed implementation of the rules for six months until July 1, 1985, for property selling for less than \$2 million. Real estate selling for more than \$2 million will become subject to the new rules January 1. The rules require that the rate be at least 110 percent of the comparable Treasury bill rate. But a blended rate is allowed during the freeze to permit lower rates on the first \$2 million.

CONTINUED FROM PAGE 11

slow during the balance of this year, and that will cause a modest decline in interest rates. Nonetheless at the end of the year interest rates will be higher than they were at the beginning.

Rates have affected housing. Housing starts dropped 6 percent in July and 13 percent in August; permits were down 11 percent in July and 4 percent in August. All in all starts are down nearly 32 percent from the February peak, and building permits are down 21 percent. Single-family starts are down 38 percent from peak and 29 percent from the level of the first quarter.

The multifamily sector showed a

great deal of strength in early summer, but it, too, has dropped considerably in the past two months. High interest rates and a very soft condominium market explain the drop. In addition condos are overbuilt in some markets, particularly in the South.

The soft condo market also is depicted in its declining share of the market since 1982. At that time the condo share reached almost 40 percent, but by the first quarter of this year it stood at just more than 20 percent.

Expect housing starts to continue to soften for the balance of the year and into 1985. Only a further decline in interest rates can reverse that. At 14

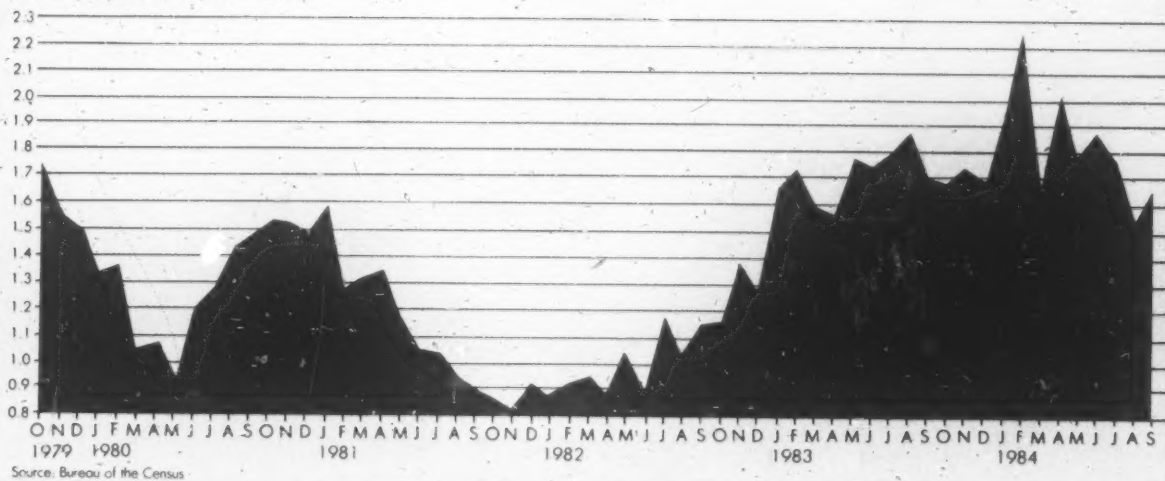
percent, fixed-rate mortgages are simply too high to sell more houses, and ARMs aren't as attractive as they were a year ago. For one thing the spread between ARMs and fixed-rate mortgages has narrowed. The negative publicity about ARMs hasn't helped either. Add to that the more stringent processing by lenders, and it points to a decrease in appeal of variable-rate mortgages.

What will help housing is the expansion of mortgage tax-exempt revenue bonds, now fairly widely used. Can they make a difference? Yes, some. But they cannot prevent a further decline in sales and starts.

OUTLOOK/STATISTICS

HOUSING STARTS

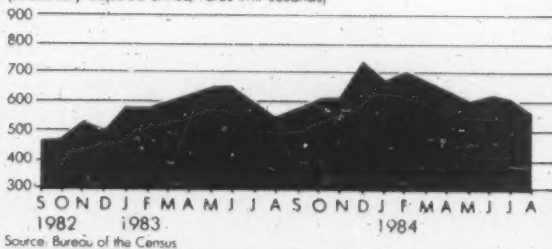
(seasonally adjusted annual rates in millions)



Starts rebounded in September to an annual rate of 1.68 million, a 9% rise. But hold the applause: Building permits authorized dropped 5.4%, so expect October starts to drop.

NEW SINGLE-FAMILY HOMES SOLD

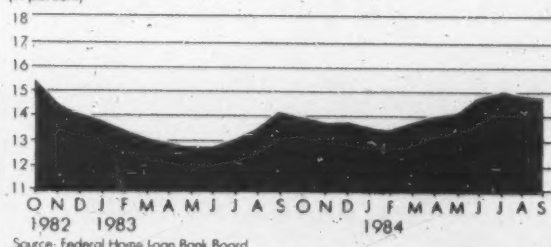
(seasonally adjusted annual rates in thousands)



Sales fell 8% in August to an annual rate of 569,000, following a downward revision of the July rate. The August sales rate was 2% higher than a year earlier.

EFFECTIVE MORTGAGE COMMITMENT RATES

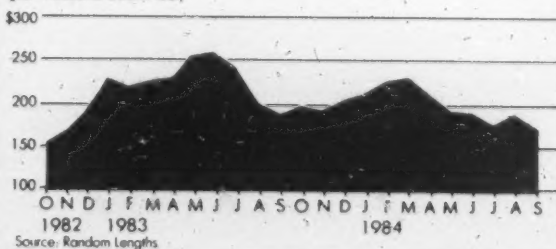
(in percent)



Commitment rates on long-term, fixed-rate loans declined nine basis points in September to 14.91%—the lowest level since May—but uncapped adjustable rates rose three basis points to 13.19%.

FRAMING LUMBER COMPOSITE PRICES

(per thousand board feet)



Lumber prices slumped 5% in September to \$180 per thousand board feet; the lowest price since November 1982.

MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES

(in thousands)



The median sales price of new homes jumped nearly \$1,000, or 1%, in August to \$81,600 from the upwardly revised July price of \$80,700. The August price was 6% higher than a year earlier.

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64—INSIDE LOOK

Small houses already have made their mark. Now it's time to start thinking about small projects on small sites. They're a big, too often overlooked, opportunity.

(Cover: The Fairways, Newton, Mass. Photo: Copyright 1984 Richard Mandelkorn)

76—FAVORITE 50

BUILDER's third annual recap of the 50 new products that generated the most inquiries during the last year. Among the favorites: manufactured houses, specialty windows and products for the bath.

90—PROJECT OF THE MONTH

Remember affordable is a relative term. And in the oh-so-pricey in-town San Francisco market, builder-architect Donald MacDonald has found a ready market for tiny, \$120,000 houses that he calls garden cottages.

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